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Ratings

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Moffat County, Colorado Tri-State Generation and Transmission Association Inc.; CP; Rural Electric Coop

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Credit Profile		
US$46.8 mil pollution ctrl rfdg rev rmktd 10/2/2017 bnds ser 2009 dtd 02/04/2009 due 03/01/2036		
Long Term Rating	A/Stable	New
Tri-State Generation & Transmission Assn unsecd revolv credit		
Long Term Rating	A/Stable	Affirmed
Tri-State Generation & Transmission Assn ICR		
Long Term Rating	A/Stable	Affirmed
Tri-State Generation & Transmission Assn RURELCCOO		
Long Term Rating	A/Stable	Affirmed

Rationale

S&P Global Ratings has assigned its 'A' rating to Moffat County, Colo.'s $46.8 million pollution control revenue bonds (Tri-State Generation and Transmission Association Inc. Project), series 2009 in connection with their remarketing in a term-rate mode. During the term-rate mode, the bonds will bear interest at a fixed annual rate. The outlook is stable.

Moffat issued the bonds for Tri-State, and the county can only use the revenues that it receives from the utility to make debt service payments. The financing structure obligates Tri-State to unconditionally pay these bonds' debt service. In addition, the utility issued a note to the county that provides it with a security interest in its assets under its mortgage indenture. Moffat's security interest on the bonds is on par with Tri-State's senior secured debt.

A portion of the utility's $750 million revolving credit facility is a letter of credit that supports the liquidity needs of the variable-rate demand obligations' tenders while the bonds are in a weekly variable-rate mode. That mode will end in October. Simultaneous with the conversion to the term-rate mode, Tri-State plans to terminate the letter of credit. The term-rate bonds will be subject to mandatory tender when the term mode expires in five years, which could expose the cooperative to a liquidity event if the bonds cannot be remarketed. However, we view as mitigating factors the relative size of the $47 million of 2009 bonds compared to the entirety of the $3.4 billion debt portfolio; the utility's plans to continue to maintain its revolving credit facility at or near its current level, which more than sufficiently covers the 2009 bonds' liquidity exposure; and Tri-State's track record of sound balance-sheet cash. If, before the term mode ends, the utility were to meaningfully reduce its cash balances or the size of its revolving credit facility, we would lower the ratings we have assigned to the utility and its debt obligations because an inability to take out tendered bonds would constitute a default event on the 2009 bonds that would cross-default to the balance of Tri-State's debt covered by its indenture.

At the same time, S&P Global Ratings affirmed its 'A-1' rating on the utility's up to $500 million commercial paper program and its 'A' rating, with a stable outlook, on the following:

- The issuer credit rating (ICR) and senior secured debt rating on Tri-State; and
- The cooperative's $419 million 2003 series A and series B pass-through trust certificates that financed the construction of the Springerville Unit 3 power plant through a lease structure.

The 'A' ratings reflect our views of the following credit strengths:

- Tri-State is a generation and transmission cooperative with what we consider a broad membership base. It has long-term contracts with 43 wholesale members serving approximately 600,000 retail meters across a 200,000-square-mile area in Wyoming, Nebraska, Colorado, and New Mexico. We believe that this breadth contributes to revenue-stream diversity. However, residential customers' modest 30% share of energy sales, sparse customer density, low service-area income levels, and customer concentrations in the natural gas and petroleum sectors, temper these benefits.
- Energy sales data show that Tri-State's end-use customers' electricity consumption places it among the 10 largest generation and transmission cooperatives in the U.S.
- Members have exclusive rights to sell retail electricity in their defined service territories.
- We calculated accrual basis fixed-charge coverage (FCC) levels of 1.2x in 2015 and 1.3x in 2016. We believe these ratios reflect the benefits of 2014's debt reamortization and moderate rate increases. Our FCC calculation treats capacity and tolling payments to other generation suppliers as debt service in lieu of operating expenses because we view these payments as a vehicle for funding the suppliers' recovery of capital investments in generation. The ratios also reflect Tri-State's use of bullet maturities for $1 billion of the utility's $3.3 billion of debt, which defers a portion of the principal amortization and raises coverage relative to a fully amortizing structure.
- Using Tri-State's financial forecast, which we view as plausible, we calculate the utility's potential to maintain coverage levels at 2015-2016 levels through 2021. The forecast reasonably assumes that member revenues will represent about 90% of energy sales revenues, which is higher than recent years' 85%. Also, the utility forecasts that member revenues will rise a moderate 3% over five years and debt balances will remain relatively stable at approximately $3.5 billion as the capital program proceeds.
- The cooperative projects that its 2014 debt reamortization and the near-term annual debt service reductions will leave a greater percentage of operating cash flow available for capital spending, which help contain debt requirements.

S&P Global Ratings also considers these exposures in its analysis:

- There is evidence of residual member discord that dilutes the stability and predictability of the revenue stream and that might frustrate strategic planning. For example, member Kit Carson Electric Cooperative severed its relationship with Tri-State in 2016, paying an exit fee. Also, member Delta-Montrose Electric Association, representing about 3% of sales, did not agree to extend its wholesale power contract to 2050 from 2040. Nevertheless, 42 other members have extended contracts to 2050.
- We consider a high reliance on coal resources as exposing the utility and its customers to the costs of complying with emissions regulations. Tri-State relied on owned and contracted coal-fired resources for 54% of its 2016 electricity production. Purchases from coal-concentrated Basin Electric Power Cooperative add to the utility's level of coal reliance.
- Tri-State's $3.4 billion debt portfolio includes $1.25 billion of bullet maturities. The balloon payments are due in 2024, 2040, 2044, and 2046; lack sinking funds; and defer to later years a sizable portion of the utility's financial burden. These structures skew debt service coverage (DSC) and FCC ratios relative to those of cooperative utilities that exclusively use amortizing debt. Our analysis assessed an imputed mortgage-style amortization for comparability, which suggested that FCC would be about 5 basis points lower and still sound for the rating.
- The amount of the 2014 restructuring's annual debt service savings will decline each year. However, the utility

nevertheless projects relatively stable DSC and FCC while introducing modest rate increases. Tri-State expects that lower near-term debt service will reduce rate pressures on its member distribution cooperatives, allow for greater use of cash financing of portions of its large capital program, and can appease members that have challenged recent years' rate adjustments.

Revenues from non-members represented 15%-20% of 2013-2016 operating revenues. However, the high level of contracted nonmember sales tempers risks of revenue-stream volatility. Also, the percentage of members' contributions to energy sales has been increasing. We view the trend of rising member sales as reducing the utility's exposure to wholesale markets and their uncertainties. Members are allowed to procure up to 5% of their electric power requirements from distributed or renewable generation. To date, members have dedicated 145 megawatts (MW) of capacity to this program, compared to their 2,802 MW peak demand on the Tri-State system.

The cooperative's mortgage indenture provides that its revenues and most of its tangible assets secure its first mortgage bonds. The Springerville plant's Unit 3 and its related assets secure another approximately $419 million of debt.

Tri-State's nearly $3.4 billion of debt at year-end 2016 was sharply higher than 2008's $1.7 billion, in part because of 2009's consolidation of debt associated with the utility's lease interest in the Springerville Unit 3 coal generating station in Arizona. More recently, debt rose to $3.4 billion at Dec. 31, 2016, from $3.0 billion at Dec. 31, 2012.

Although the cooperative projects about $1.3 billion of 2017-2021 capital spending, its financial forecast plausibly shows relatively constant debt balances because nearly $500 million of existing debt will amortize during those years and funds available after debt service could create about $725 million for of capital spending, which should temper the need for additional debt. Investments in transmission and existing coal facilities represent the largest elements of the capital plan.

Six owned and leased, coal-fired, base load generation stations providing 1,874 MW of capacity dominate Tri-State's 2,841 MW portfolio of owned and leased generation. This fleet incudes 967 MW from natural gas- or oil-fueled peaking power plants. In addition, the utility contracts for low-cost hydroelectric power purchases from the Western Area Power Administration (WAPA), and renewable resources consisting principally of wind turbines. Members' peak demand has been between 2,600 MW and 2,800 MW since 2010. Tri-State believes that its supply portfolio will meet its needs through 2025. Economy market purchases rose to 13% of 2016's power supply, up from 4% in 2013.

Average wholesale rates of 7.1 cents per kilowatt-hour (kWh) were unchanged for all members during 2013-2015 partially because of member discord, with Colorado and New Mexico members that challenged the utility's rate adjustments and the cooperative's allocation of demand and energy charges. Because Tri-State has revised its rate structure's demand and energy charges and has made strides in resolving the customer conflicts, management believes the utility can incrementally raise rates. The average member wholesale rate was 7.2 cents per kWh in 2016. Tri-State lacks a formal fuel and purchased power adjustment mechanism. Consequently, its board's willingness to adjust rates as costs rise is an important credit quality indicator.

Outlook

The stable outlook reflects our view that the debt reamortization is producing annual debt service savings that support Tri-State's forecasts of sound coverage, benefit bondholder protection, and create capacity to apply operating cash flow to capital needs. In addition, progress in resolving customer discord issues should facilitate strategic planning and provide financial flexibility.

Upside scenario

We do not expect to raise the rating within our two-year outlook horizon because the utility's debt reamortization shifts principal payments to later years. Also, we view Tri-State's revenue stream as exposed to the volatile oil and gas sectors. Furthermore, the cooperative, like many other utilities that depend heavily on coal for generation, needs to develop a strategy for responding to emissions regulations and competitiveness issues.

Downside scenario

We could lower the ratings if Tri-State does not achieve sound coverage in line with its projections whether due to member discord, a lack of ratemaking flexibility, higher-than-expected costs attributable to the capital plan or complying with environmental regulations. We could also lower the ratings if the utility does not maintain liquidity sufficient to meet the 2009 bonds' liquidity requirements.

Springerville Generating Station Unit 3 Debt

In 2003, Tri-State financed the construction and acquisition of the Springerville Generating Station Unit 3 by creating a lease structure with Springerville Unit 3 Holding LLC, as the owner-lessor. The lessor issued notes to fund construction. In turn, a pass-through trust purchased the notes with the proceeds of the Tri-State 2003 series A and B pass-through trust certificates that the utility sold to investors. Although the cooperative's obligation to make lease payments is a general unsecured obligation of the utility, Unit 3 and its related assets at the plant site secure the certificates. As of June 30, 2017, $419 million of certificates were outstanding. Their maturities extend through 2033.

The lessor owns the power plant, and it leases the underlying land from Tucson Electric Power, Co. and has sublet it to Tri-State. The power plant lease is a triple net lease that is absolute, unconditional and not subject to abatement. The three-month outage to repair turbine damage in 2012 highlights the significance of these lease provisions.

Based on its 51% equity interest in the Springerville Unit 3 Partnership L.P., Tri-State fully consolidates the project's assets, liabilities, and expenses in its consolidated financial statements, and its income statement does not include lease expense.

Ratings Detail (As Of September 11, 2017)		
Tri-State Generation & Transmission Assn		
Long Term Rating	A/Stable	Affirmed
Tri-State Generation & Transmission Assn cp		
Short Term Rating	A-1	Affirmed

Ratings Detail (As Of September 11, 2017) (cont.)		
Tri-State Generation & Transmission Assn RURELCCOO		
Long Term Rating	A/Stable	Affirmed